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CORPORATE PARTICIPANTS

John Rainey, *Chief Financial Officer, and Executive Vice President, Global Customer Operations*

Erica Gessert, *Senior Vice President, Finance and Analytics*

Gabrielle Rabinovitch, *Senior Vice President, Corporate Finance and Investor Relations*

CONFERENCE CALL HOST

Tien-Tsin Huang, *J.P. Morgan*

PRESENTATION

Tien-Tsin Huang

Thanks, everyone, for tuning in. This is Tien-Tsin Huang. I'm the payments analyst at JP Morgan. Really grateful to have the PayPal team on, John Rainey, CFO and EVP, Global Customer Operations. We have Gabrielle Rabinovitch, SVP, IR and Corporate Finance, and Erica Gessert, SVP, Finance, Planning and Analytics. So I've collected a lot of great questions from investors. Thanks for sending those in. Hopefully, we can get through most of it in the next 45 minutes. So should we get started?

John Rainey

Yes. Thanks Tien-Tsin, we're ready to go.

Tien-Tsin Huang

Let's do it. Thanks for trusting us to host the call. So I thought we'd start with the quarter and then build up to the outlook and all the questions around that. So fourth quarter, I would say, right in the middle of guidance on revenue and EPS, but TPV a little lighter and it exited the year softer, as you said, versus expectations. So what macro trends surprised you, John and team? And what's changed in January, was a question that we got quite a bit. Maybe let's start with that.

John Rainey

Sure. So I think what we saw in our business was pretty consistent with some of the reported macro numbers, specifically the decline in retail sales and the decline in personal consumption in December on a seasonally adjusted basis. We did expect the front half of the quarter to be a little bit stronger because of all the supply chain issues, and so there was this expectation around pull forward in ecommerce.

We saw that and were quite pleased with how the first half of the quarter was shaping up. But the back half was certainly weaker than we expected. And some of that has continued into January, specifically what happens when we look at spending by cohorts. And particularly when I'm referring to cohorts here, I'm referring to the composition of our user base that is low income, medium income and higher income. And just to clarify a point there, we are a reflection of the markets in which we operate. And so if you look at our footprint, that's pretty much what's reflected in our business. So I wouldn't say that we're that different in any one of those versus the market overall.

But we see the lower income, and to a lesser extent the medium income cohorts, they certainly benefited from stimulus. And I think with that declining from prior periods and the inflationary effects around pricing [the impact of higher inflation on the consumer's ability to spend], we saw less spending than what we anticipated.

And so that's given us a reason to be cautious on our outlook for 2022. Certainly, we hope to outperform that outlook, but we want to be balanced and measured and make sure that we've got proper range on the outcomes that we could anticipate.

Tien-Tsin Huang

Understood. So when you're benchmarking your TPV, your growth against broader, let's say, ecommerce, how do you go about doing that? Because we've gotten that question quite a bit, and things like, are you concerned about pull forward of penetration? And if that's the case, can you get to your old 20% guide [revenue] beyond 2022? What's assumed in the outlook for macro things like travel, etc.? So just maybe a broader question around benchmarking here, and how to think about it short term, long term.

John Rainey

Sure. So we very closely look at the broader trends around ecommerce. And if you look at 2022, there's a pretty wide range of expectations in terms of forecast. We tend to gravitate towards the midpoint of that, and that for us would be around 10%, maybe slightly higher, in terms of overall ecommerce growth for the market. And that's the basis by which we build our plan.

When you look at some others out there, I know some have compared us to the networks and what they're reporting. Keep in mind that we are much more of a pure play in ecommerce than some of those other companies. And we certainly benefited a lot in prior periods that we're comparing to because of the peak of the pandemic, some of what we were seeing in earlier periods. And so it makes those comparisons to some of these others that are in our ecosystem, I think, a little more challenging.

But overall, we fundamentally believe ecommerce is going to continue to go up. It maybe has hit a softer patch relative to what we've seen in the last year or even two years. That's probably not that unexpected as you're seeing a little bit more of a return to in-person experiences. People are wanting to get back out, to travel more. And some of those verticals, like travel, disproportionately benefit some of the others that we're talking about, that do benefit from more in-person type experiences.

Tien-Tsin Huang

Yes. So there's a little bit of give-back, I totally get it, and it's been hard to read. But just thinking about, again, reading the tea leaves here, you guys did buy back a lot of stock in the fourth quarter, about $1.5

billion, so it suggests that you didn't expect to reset expectations until well after the quarter. Is that fair, John? And as a follow-up, are you a buyer of PayPal shares here at lower levels?

John Rainey

Well, I'm a buyer right now, and I was a buyer at our prices last quarter. I think that, look, I'm very disappointed in where we are today, but I have a huge amount of conviction in the core strength of our business and what we can do going forward. And that's not reflected in today's market prices. So I certainly am a buyer.

But also appreciate that, generally speaking, the way that we execute our stock buybacks is to put that on a 10b5-1, where it's sort of on autopilot. It's somewhat formulaic, based upon where our price is trading relative to the overall index and also versus our historical trading averages. But that is something that was put in place and was already executed as we went into the quarter.

Tien-Tsin Huang

Okay. No, thank you for that. So we'll skip a little bit to the outlook and then into NNAs [net new active accounts]. But the walk that people have been asking has been around the first quarter guide, which I think is 6% revenue growth. You planned to exit the year closer to your prior [medium]-term guidance, which I know you've reaffirmed in the 20% zone in revenue. So how do you get there? Walk us from that Q1 to the fourth quarter.

John Rainey

Sure. Well, the most pronounced impact is still from eBay. And look, I know everyone is tired of discussing that. We are too. But the math is what the math is, and we've got $600 million of top-line [negative] impact from eBay in the first half of the year, $400 million in Q1, $200 million in Q2. In the third quarter, we began to have more of an apples-to-apples comparison in our business because eBay had effectively transitioned most of the entirety of their volume by the third quarter last year. And so we get back to a situation where it's more, like I say, apples to apples.

And that's one of the reasons that we continued to call out our performance ex-eBay. And so if you just take the fourth quarter, we grew revenue 22% ex-eBay, which I think is a strong indication of the health and the strength of the business. And that's frankly been pretty consistent over several quarters and a good proxy for what to expect going forward. So that is the most acute pressure that we faced.

Like in any year, we have a number of initiatives that take time to ramp to be able to reap the full benefit of what we expect. And so those are happening next year as well. Those initiatives include a lot of efforts that we talked about yesterday around checkout as well as digital wallet, different services that we're providing there.

And then we also have, I think, a general expectation that there is some macro improvement relative to what we're seeing here in the first four or five weeks of 2022. And that could be supply chain issues abating. It could be less pressure from inflation.

But these are real things that affect our business. If you take supply chain, just take the international part of our business, the two countries that were most affected in the fourth quarter were China and the UK. China, that's a region for us that has always had outsized growth. It's shrinking year over year because of supply chain issues. And so those are impactful to our business. And we will absolutely get through this. We believe these are transitory issues. But none of this should take away from the long-term value of the business and the opportunity that we have.

Tien-Tsin Huang

Yes. And I agree and I'm hopeful we'll see that improvement. That all makes sense. So that's why we've been focusing a little bit more on eBay here. Because last year, fourth quarter, I know that was the bigger surprise in terms of magnitude. But what about looking ahead here, the outlook from here? I know it's smaller, low to mid-single digit [as a percent of] revenue. But what was checkout share in the fourth quarter? Any surprises on the eBay side? And what's the expectation for 2022?

John Rainey

Yes, we've been really consistent there, with our checkout hovering around the 50% or slightly higher level. And that's our expectation going forward, that we expect that to continue. We've got pretty good experience with other merchants where we've had a similar transition. And so we expect to maintain that 50% share of checkout. Our value proposition still matters to many of those eBay users.

Tien-Tsin Huang

No, for sure. I know… I think we shared it with you guys. We ran a survey. And always surprised by how strong PayPal is relative to the other players. And so just to close out on that same topic, how is the pipeline and the outlook here for adding new merchants, marketplaces, etc.? Any update on that front?

John Rainey

Well, what I would say is that we're exceedingly pleased with how Braintree is performing right now. We launched in a big way with some merchants like DoorDash, Ticketmaster, still have Airbnb and Uber as big parts of our business. And we're continuing to demonstrate the value proposition that Braintree provides to these merchants, particularly when you consider that they're complementing the services that they provide with bringing over 400 million active accounts to that merchant's platform.

And that is… I read your survey, which I would encourage everyone to, that you put out this week, but I think that really underscores the value that we provide and how people think about us in the ecosystem. Whether it's things like Buy Now, Pay Later or simply wallet presentment where, over 50% of the time, when someone has a choice of choosing PayPal or some other wallet, they're choosing PayPal. And that resonates with merchants. They recognise that, as well, they get higher conversion, and it's why Braintree has been so successful.

Tien-Tsin Huang

Yes. Okay. No, good. Thanks for that. Let's get into the NNAs a little bit. I had a lot of questions about the 5 million [Note: PYPL reported ~4.5 million] illegitimate users. So can you elaborate on what that is, how you identified it? Because it feels like that's the bulk of what drove the difference in NNAs versus your and our expectations.

John Rainey

Sure. And you're correct that it is the primary driver of the miss in end Q4. So as context, in any quarter, we're constantly assessing the legitimacy of new accounts that are created. And when I say legitimacy, we don't want to have bad actors coming to our platform that are simply availing themselves of some incentive type offer that we're providing but have no intent to actually be a legitimate customer, transacting going forward. And particularly so when there are these bots that are creating multiple accounts to avail themselves of this.

And so we often, in any quarter, exclude a certain number of accounts that are created because we don't think they are a representation of the true customers that we're adding. We had that again in the fourth quarter, but in addition… Well, and I should say it was exacerbated in the fourth quarter because of the

nature of some of these incentive campaigns that we offered in the quarter. We also looked back and recognised that there were about half of that 4.5 million number that were created in quarters one through three that we excluded also.

And so our policy is to exclude the accounts in the quarter in which we recognise them. And so that all hit in the fourth quarter and is, again, the single biggest contributor to that miss. This is really, Tien-Tsin, normal course of business for us. But when you look at the out-of-period piece combined with some overall ecommerce sluggishness in the quarter, which also affected that, it really created a situation where we missed [expectations on] our net new actives.

Tien-Tsin Huang

I see. I see. No, that's helpful to hear. So I think you've mentioned that the first quarter, you'll see some churn as well with the low engaged customers if you want to call it that. So is that different than what you've experienced versus prior years? I'm just trying to understand what's happening in the first quarter there.

John Rainey

Sure. So again, I anticipate you're going to ask about the guidance on net new actives going forward.

Tien-Tsin Huang

Yes.

John Rainey

So I'll save a little bit of the question for that. But given the fact that we brought in basically twice as many customers in the last two years as we do on a normal year, in the absence of anything done to try to keep them on our platform, like incentive campaigns or other things like that, we're going to expect a higher level of churn, a much higher level of churn than what we've seen in previous years. And so that is most impactful in the first quarter.

So the first quarter will be the low point for us for the year in terms of our net new actives that we add. Again, our guidance for the year is 15 to 20 million NNAs, but it'll be most acute in the first quarter, just given the nature of when those customers were brought onto our platform 12 months ago.

Tien-Tsin Huang

Got you. Got you. And so, yes, just to build on it then, as you just said, so the 15 to 20 you're expecting in 2022, I think you and Dan talked about that getting back to your pre-pandemic growth of 30 to 40 million beyond 2022. So is the difference just this attrition that we're talking about? Or is there something else that you're counting on to get back to that level?

John Rainey

No. That's 100%, this is due to attrition. And look, we haven't put out a new number for net new actives, but there are reasons that we could see an elevated level versus the pre-pandemic level as we look at markets like China and Japan that we're adding, the addition of teen accounts that we're going after this year.

So there are some dial movers there. But again, we wanted to take a step back, this is a pivot in strategy, and reset expectations around this. And look, I know this is a surprise, and I never want to surprise the

market. I'm disappointed in this. But I hope people appreciate that this is the right decision for our business.

Look, we had 120 million customers that came to our platform over the last two years. Tien-Tsin, it's kind of analogous. If you've got a storefront and twice as many customers walk in there one day, you don't want them to just leave. And so we've made various attempts to try to incent them to be engaged with our platform.

And each one of those efforts requires analysing the impact of that. That doesn't happen just in a day or two. This is over months, to see, okay, is this affecting their engagement with us, their willingness to stay on our platform? And so we analyse, we assess this, it informs our strategy, we pivot on our strategy.
And we've gotten to a point where we recognise that, like any company, you've got a certain amount of money that you allocate to marketing and sales. We are better served, as a company, by redirecting that towards higher-value efforts that have a higher ROI [return on investment].

And it is the right decision for our business. We believe that we can achieve all of the goals that we had by pivoting on this. But it was certainly worth the attempt to try to keep 120 million customers, not that all of them are going to churn, but try to keep that elevated level of customers on our platform. But when you look at the cost of acquisition relative to the CLV [customer lifetime value] of some of these customers, we believe that this pivot is appropriate for this business.

Erica Gessert

Hey, John. This is Erica. Tien-Tsin, I just want to emphasise a couple of points that John made on this, which is these are truly ROI-driven decisions that we're making. And when we talk about 2022 in particular, it is the bottom of the funnel. We have an elevated churn rate in 2022.

We're also rationalising the top of the funnel a little bit and moving away from these more incentive-driven activations, which do have return on investment, but it's a much, much lower return on investment, and ultimately higher churn rate, than other actions we can take, other investments we can make, in particular, with engaging the base in the new products and services that we've launched.

So it's a pivot away from some of the incentive-driven campaigns that we've invested in, and really engaging people, the 400 million customers that we've got now. So that's really what's affecting 2022, both bottom of the funnel and top of the funnel. And that's another reason why, as we move into 2023, we would expect things to normalise a little bit more.

Tien-Tsin Huang

Yes. No, thank you for that. I know you guys have put a lot of thought and didn't take this decision lightly, so I trust that to be the case. But from a sizing, I don't know if it's possible to do it here, but can you size your prior marketing spend on lower engaged users or this incentive-driven activation? Is there a way to size how big that is? And can we assume also that you're going to reallocate that towards the engagement model fully?

Erica Gessert

Yes. Look, we're going to continue to invest in activation in places where we see the highest return on investment. We're just going to reduce where we don't see a good return on investment. So we're still going to have activation spend.

From an overall marketing point of view, our marketing investment, it's going to be relatively on par with what we did last year, but we are going to rebalance quite a bit towards marketing new products and

services to our base, possibly additional investment in incentives for engagement and other things like that.

So we've just seen a much, much better yield when we invest in incenting people to use new products and services. Buy Now, Pay Later has an incredible return for us, not just in actual usage of the product but we actually see a halo effect of about double the revenue of the product usage itself when people use that product. Even the same with people buying crypto. When customers sell off their crypto position, they actually reuse their balance at more than double the use of a normal customer.

And so we see a lot of network benefits to the activation of our current base into new products and services. And that's where we're going to be rebalancing. One more final comment is we are also going to invest in loyalty this year probably in a more profound way. And so that's going to be another place you'll see us rebalance.

Tien-Tsin Huang

Got it. So the marketing level, on par, but you're going to rebalance more towards marketing some new products and services and also on loyalty, if I heard that correctly. So yes, it sounds like the push now, at least for us, we should be focusing more on ARPU [average revenue per user] with this pivot. And we heard loud and clear that you have conviction in the [medium-]term guidance beyond 2022. So I think the guidance implies, what, a low double digit growth rate in ARPU beyond 2022? What's the build-up to get there?

John Rainey

You're right, Tien-Tsin. That is that is essentially what's implied. One of the biggest opportunities that we have is just improving checkout. We've seen advances in gain share more recently. We want to continue to improve availability.

A good example is just if you go to Walmart to check out, you'll see that we're on the initial checkout page there, presented right there at the top versus very back, three pages back, in terms of other payment options. Things like that appreciably increase our checkout.

And as we've noted before, there's a huge opportunity for PayPal in as much as our customers effectively only use us about half the time that they have the option to. And we recognise, and I said this yesterday, but this is our legacy and it's our future. We need to be the very best at this. And there are advances that we want to make around the experience for customers, the technology, have even less friction. And that's what our team is working on. And these things will certainly help us build up that ARPA [average revenue per active account].

But I think there's a couple important points that we talked about in the investor update yesterday. And when a customer, a PayPal customer begins to use a second product, we see on average that ARPA increases 25% on average. And so this is yet another example where we think that if we take our existing user base, and those that are coming to us through organic efforts, and get them to engage with the entire suite of products that we offer on our platform, there are huge returns on that, very significant ROIs. And that will help us get to these ARPA numbers and ultimately the revenue numbers that we talked about. And you mentioned this earlier, Tien-Tsin, but we are going to begin to provide additional disclosures around our monthly active unique users and our ARPU metrics, because we think those are much more important than net new actives in determining the health of the business and where we're going.

Tien-Tsin Huang

Great. No, look forward to getting those unique user numbers. So yes, adding more breadth, a second product, ARPU goes up, makes a lot of sense. From a product standpoint, have we seen the bulk of the products that you're going to be pushing here to drive that outcome? Or can we expect more in the way of product releases in 2022? I've gotten that question here a couple times, so I figured I'd ask it.

John Rainey

You should expect more product releases. And I would say that that's a fair assumption for any year, going forward. We want to continue to provide products that are relevant to our customers, that they derive value from and that we can monetise.

In the near future, we've talked about adding savings as well as adding investing to our platform. And I think those fit very closely with our core business and how people think about us being a digital wallet. Others are doing this and it's certainly a path that we want to go down. So we'll continue in each year to add additional products and services that will complement what we offer today.

Tien-Tsin Huang

Okay, good. Very good. So I suppose I have to ask a pricing question here, John. So another lever on ARPU is pricing. I know take rate was up sequentially in the fourth quarter. What's implied in the outlook for take rate? And any surprises from some of the pricing action you guys took in the fourth quarter?

John Rainey

The only surprise, Tien-Tsin, I would say is the lack of customer churn. Any time you raise prices, there's some fall-out. Some customers churn away and we have to make assumptions about that when we initiate those pricing changes. We've actually seen the response to this has been very favourable.

Another data point is just in customer service. We tend to get an influx of calls when pricing changes are announced, and then again when they're implemented. And there was very little of that. In fact, I would say less of that this time than any time in our history.

And I think that really underscores that our value proposition resonates with customers, that they understand that adding things like Buy Now, Pay Later, where you can increase conversion for merchants and there's effectively no direct incremental cost for them, that those things are very compelling.

And so this experience, this specifically being the pricing change that we announced in August, informs our point of view going forward around pricing changes. And keep in mind, we both lowered and raised prices when we did that. We lowered prices on some of the card processing part of our business. But that informs our point of view about expanding that out to other regions, other verticals, larger merchants as we go forward. And so in any year, there is some assumption about price changes in our business.

With respect to take rate, you're right, it was a nice change because I know a lot of people focus on take rate and the decline that we've seen. And maybe a better way to really understand how that will be, going forward, is to look at the year-over-year comparison. So not the sequential change from the third quarter, but year over year. And that was a 17 basis point decline.

About half of that, eight basis points, was related to eBay. Well, that's going to go away. And the next largest contributor to that decline, which was five basis points, was a decline in foreign currency fees, which affects us, or the currency volatility affects what that number can be. And so in a more volatile currency environment, we're able to price to that more versus a less volatile environment, which we experienced this last quarter.

And that's another way of saying that can go either way, that some quarters, it's a contributor to take rate, and some quarters, it's something that is making a decline. And so you strip those out and you look at the remainder, you're only talking about four basis points or so of take rate decline, which is really just a result of mix changes in our business.
And that's something that people should expect going forward. We'll continue to see that. Other things like foreign currency fees and hedge gains or losses, those are going to vacillate back and forth from one quarter to the next, and eBay will eventually be gone here in two quarters.

Tien-Tsin Huang

Okay. That's clear. So thanks for that build-up. So another factor I'll ask here is on P2P. So P2P growth has slowed. I know there's no take rate there. But is it concerning that P2P is now lagging TPV growth ex-eBay? I'm asking here because we know, or at least you've trained us to think about this too, that P2P users are highly engaged. So now that you're prioritising engagement, is this an area we should be watching?

Erica Gessert

Hey, John, maybe I'll jump in here and you or Gabz can add anything. Look, we're certainly playing attention to the slowdown in P2P TPV growth. The reality is that I think there are some exogenous factors at work here, with some of the IRS announcements and other things causing waves in consumer behaviour.

And so there's a little bit of education we need to do for people on that, on the true impacts to people using. It doesn't affect friends and family flows, other things like that. And so I think there is some, like I say, external factors impacting people's behaviour.

On the P2P customers being more engaged, what we've always talked about is the P2P activations showing better engagement characteristics upon activation, comparatively speaking. And that remains true. However, what we find, with P2P activations, when they enter the base, they tend to do subsequent transactions in other products.

And so when people in the base start to decline a little bit, their P2P activity, it doesn't mean that they are disengaging from other products. So while we absolutely want to engage in education and other things to make sure that we maintain those volumes, it doesn't have a ripple effect into the other product uses of those customers. At least we haven't found it.

Tien-Tsin Huang

I see.

John Rainey

One other thing that I'd add, Tien-Tsin, is that we certainly benefited in the fourth quarter of 2020 from the pandemic as well as more stimulus in that period around P2P. When people are getting money in their wallet, they're going to be much more engaged in using that in P2P experiences. And so we had a very difficult comp there as we look at this last fourth quarter versus 2020.

Tien-Tsin Huang

Yes. No, that's a good point. That's a good point. So just to round this out then, just had to ask a question about Venmo. So TPV growth, I think, I wrote down here, did slow to 29%, but revenue growth was strong, very strong at 80%. So the bridge there between volume and revenue, what's monetising? Is

there an update that you can share there? And what's implied in the outlook as well? I think you've mentioned 50% revenue growth for Venmo in 2022.

John Rainey

Sure. Well, we continue to monetise Venmo in a number of ways. And very pleased that we achieved the target that we set out for revenue for the year. There'll be a little bit of a disconnect maybe between TPV and revenue growth going forward for Venmo, simply because a lot of the ways that we monetise that today are not reflected in TPV.

So as an example, instant withdraw is something that has no TPV associated with it, but we recognise revenue related to that. Crypto is another example, or even the physical credit card. And so we'll continue to provide these types of services to the Venmo customers that we can monetise. And excited to see where this is going. I think investors have been patient in getting to this point. And we talked yesterday about targeting around 50% revenue growth for this year. And just continuing to see that platform expand and grow in its relevance.

Tien-Tsin Huang

And it's now profitable?

John Rainey

It will be profitable this year. That's what we said.

Tien-Tsin Huang

Okay. So that's the goal. Good. We've got, what, ten minutes left? So let's hit margins. Can't let you go without talking about margin. So the puts and takes to arrive at the 23% [non-GAAP operating margin] for this year back to the pre-pandemic level that we point to sometimes. But I think it's down modestly, adjusting for the credit comp. So walk us through the puts and takes there if you don't mind.

John Rainey

Sure. We're going to see pressure on the more transaction related expenses, specifically credit losses this year. As we get back to a more normalised environment, credit environment, and we begin to build out specifically the Buy Now, Pay Later book, that's going to put a little bit of pressure on loan losses for the year. But on the flipside, we are continuing to do a ton of work on our non-transaction related expenses. And we should expect to see a lot of leverage there this year, and going forward into next year as well.

I think we've had good discipline in this area of our business over the last several years, but there's certainly a renewed focus around that, to make sure that we are growing in a healthy way, in a very efficient and productive way so that we can realise that leverage in the business and either see our margins expand or reinvest that into areas that we think are very important for our future growth.

Tien-Tsin Huang

Yes. I know you've done a lot of hard work there on the non-transaction expense side. But how about on the transaction expense outlook? I know we field a ton of questions, and you guys do too, on the credit funding mix moving up. So what transaction expense are you comfortable with here in 2022?

John Rainey

Yes. The credit funding mix moving up is really more a product of what we see around holiday shopping periods. I think that's probably pretty understandable, where people are doing larger ticket sizes and tend to use credit more, relative to other funding instruments.

In terms of what to expect for this year, I still believe that that mid-80s [basis points as a percentage of] TPV is an appropriate level for our business. And I'm not saying necessarily 85. Maybe there's a range there of 83 to 87 in terms of something that we think is very manageable for our business.

You mentioned Venmo in the previous question. Venmo carries a much lower funding mix than other parts of our business. And as that grows, that is an offset to other areas where we might see pressure, like with Braintree growing more, as an example, where that's more card-based processing.

Tien-Tsin Huang

Yes. Okay. Good. So I think looking longer term on margins and philosophy around margin expansion, I think Dan still alluded to the goal of expanding margins. Are you still comfortable with that? I think 50 to 75 [basis points] of [non-GAAP operating] margin expansion was implied in the [medium-]term outlook. Is that still something we should consider as a goal beyond '22?

John Rainey

Yes, it is. That's something that we're very focused on. We think the nature of our business, given that we continue to grow and scale at a low marginal cost, we're going to be very focused on margin expansion but also investing back into the business.

Tien-Tsin Huang

Okay, good. I'll just maybe fire a few more. Buy Now, Pay Later, a popular topic. Very strong, up sequentially in a big way. It's now about, what, 1% of TPV? So where do you think this can go in the short and midterm? I know you've been quite bullish on it in the past, John. So any new thinking around BNPL investment and growth?

John Rainey

Well, this has been a great product launch for us, something that we did organically. The team here launched that very quickly. And your own survey that you put out showed a strong preference for that versus some of the other Buy Now, Pay Later companies that are out there. And so as I've said repeatedly, I think our value proposition is second to none. And so we'll continue to expand this into other regions, expand maybe the product offering as well.

But we also are going to be consistent with the guardrails we put up around our credit business. And as we've talked about before, we look at the amount of free cash flow that's devoted to funding credit. We look at the size of the business from both an overall revenue composition relative to total PayPal as well as the size of the assets on our balance sheet.

And if we get to a point where we think those are getting too large and we are too dependent upon credit to where maybe it influences the durability of our earnings stream, then we'll look at externalizing that, like with did with Synchrony, with the US consumer credit receivables a few years back. I think we're a ways away from that right now, but certainly something the team is getting out ahead of to make sure that we are evaluating those opportunities, should we get to that point.

Tien-Tsin Huang

Okay. No, glad to hear it and glad to hear you still feel comfort with promoting that product, and it's done great. So you mentioned free cash flow to fund credit. Let me ask about free cash flow overall. I think you're targeting, what, $6 billion, up 10% in 2022. If I look back the last couple of years, you spent, what, $3 to $4 billion per year in acquisitions during the pandemic. Now, is that going to change here, given the pivot? Can we expect PayPal to still stay active on the acquisition front, like we've seen during the pandemic? Or is maybe a pause something we should look for?

John Rainey

You should not look for a pause. I think our policy going forward… I shouldn't say our policy. Our approach going forward will be very similar to what we've done historically, where we typically look at smaller, tuck-in acquisitions that are complementary to our platform.

Look, there's a couple points to mention here. We are, I think, in pretty rare company in terms of the amount of cash flow that we generate, particularly given our growth profile. And that gives us another arrow in our quiver to compete with the industry, and in terms of whether we want to go out and acquire companies, whether we return cash to shareholders, invest organically. And so we're going to continue to allocate capital in a similar fashion to what we've done over the last few years, and do it to the best effort to create more shareholder value.

Tien-Tsin Huang

Yes. I think we sometimes take for granted, John, you guys do, what, 21-22% free cash flow margin. Especially having worked on all these IPOs where there's no sign of profitability, that's a pretty heavy margin, which is why I wanted to ask the question.

John Rainey

Well, it's a good point, Tien-Tsin. And if I can just add to that, I know there's a lot of focus on some of the newer entrants here, but if you look just on an absolute basis, the amount of revenue that we add each year and the amount of free cash flow that we add each year, if you just take 2022, we're going to do, whatever, $4 or $5 billion of additional revenue and another, call it, $600 million of free cash flow just in one year.

We're growing more in a year than the size of some of these companies. And I really think it demonstrates the benefit that we have by the scale of our business and the ongoing relevance of our business to others.

Tien-Tsin Huang

And I know it's easy to ask about competition, whether it be Apple and what the press has been saying about what they might do to convert iPhones to acceptance devices, of course, Shop Pay gets a lot of attention, Affirm gets a lot of attention from the investor community. Just big picture here, do you feel the competitive situation is more intense now at this point in the cycle or at this point of the pandemic? Do you feel that there's more intensity or need to do things differently, given that?

John Rainey

Well, look, we're always doing things differently. I'll point to the pivot on net new actives, around that. But competition is something that we're very familiar with. If you go back five years, the questions at that point in time were around the networks, the banks, how we were going to compete with that. Apple was certainly mentioned.

It's a different set of players now, but it's still competition. And it's why we continue to focus each day on what we do best, things like checkout, things like the digital wallet, adding those experiences, to continue to keep that margin above the rest of the competition. And so it's not scary to us, it's something that we're very accustomed to, but also, we're not going to sit on our hands.

We have to continue to evolve with the evolving industry. And I think the reason that you see all this competition, all these entrants into our industry, is because it is such an exciting business. It is such an exciting industry, with huge growth opportunities around where ecommerce is just continuing to grow, around the digitisation of payments. We think that we're positioned as well as anyone to win in that game.

Tien-Tsin Huang

Yes. Hey, look, from where I stand, having followed this thing since the initial IPO, there's always intense conversations around competition. Yet here we are, at the size and scale. But hope you appreciate why I still had to ask it. A couple more, if you don't mind, and we'll let you go. Thanks again for the time. This is always great, to have a conversation with all of you guys. Just a quick first clarification. A lot of people asked. The [medium-]term guidance, the 20% revenue, 22% bottom line [non-GAAP EPS], is that for the period now of 2023 to 2025, meaning we should throw out '22?

John Rainey

Look, the short answer is yes. What we said yesterday is that we think those targets are achievable in 2023, 2024, 2025. Given where we are and given the growth in 2021 as well as what we're projecting in 2022, it makes the compounded annual growth rates over that five-year period more difficult. Not to say that we've given up on it, but what we affirmed yesterday is that we believe that the out years, we can achieve those numbers.

Tien-Tsin Huang

Okay, great. So last one, and we'll get you guys out of here. Just obviously humbling to see the stock and the guidance changes here. What can we expect PayPal to do differently in '22 to win back investor confidence here? I know people are asking, are expectations set low enough to get back to beating and raising, etc.? But curious, bigger picture here, what might you guys do differently?

John Rainey

Stating the obvious, I am extremely disappointed to be in this situation, seeing the stock price reaction, and I'm sure all of our listeners are disappointed as well. And that doesn't sit well with myself or the rest of the management team. I feel like we have done a pretty good job over the last several years of building credibility, getting people to understand our story and the opportunity that we have in front of us.

And we've damaged that. There's been some missteps this year. It was a choppy year that was hard to forecast. Even the very Pinterest rumours, I think people speculated about what that could mean for our business. And here we are, lowering our growth outlook for 2022 relative to where we were a quarter ago. And so all of those things don't sit well with any of us.

And so we want to get back to where we were before, a beat and raise story, show the underlying core value of our business and the strength that we have. And we're going to do that. That's what the team is focused on here. I also recognise it's a bit of a show-me story and it's going to take some time for people to get back on that. But we're going to work with dogged determination to get back to that point and demonstrate once again the opportunity that we have and the value that we can create as a business.

Tien-Tsin Huang

Good. Good comments to end on. We'll let you guys get back to work so that you can get back to that sooner rather than later. So again, appreciate you guys giving us this time. It's incredibly useful. I know a lot of people are tuning in. And so let's definitely stay connected if we can.

John Rainey

Sounds good. Tien-Tsin, thank you for hosting the call, and thanks, everyone, for joining today.

Tien-Tsin Huang

Thank you.

Operator

That concludes today's conference call. Thank you, and have a great day.